

THE EVOLUTION OF POLICY IN  
CONTEMPORARY ONTARIO



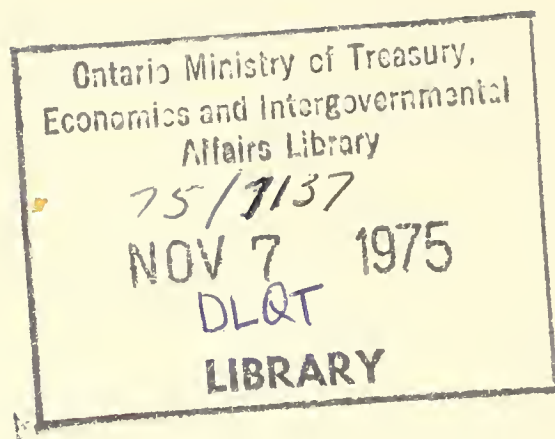
**THE ROLE AND  
PLACE OF ONTARIO  
IN THE CANADIAN  
CONFEDERATION**

BY JOE MARTIN



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THE EVOLUTION OF POLICY IN CONTEMPORARY ONTARIO

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# **THE ROLE AND PLACE OF ONTARIO IN THE CANADIAN CONFEDERATION**

by

**Joe Martin**

This is one of several studies prepared for the Ontario Economic Council. Although these studies are published under the auspices of the Council, the views expressed are those of the authors themselves.

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# THE EVOLUTION OF POLICY IN CONTEMPORARY ONTARIO

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IN THE CANADIAN CONFEDERATION

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# THE ROLE AND PLACE OF ONTARIO IN THE CANADIAN CONFEDERATION

by Joe Martin\*

## Introduction

“Federalism”, wrote J. A. Corry, “is a dual form of government calculated to reconcile unity with diversity . . . It provides for a common government for common purposes, generally called the federal, or national government. In the beginning, the common purposes mostly relate to external matters . . . The federal scheme also provides for the continuance of the government of the several states or provinces in the federation, preserving for them, against the world and against the common government they have set up, control of most matters of internal policy. The most important aspect of a federal system, then, is the distribution of powers and authority between the common government on the one hand, and the state or provincial governments on the other.”+

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+ J. A. Corry “Democratic Government and Politics,” p. 553, University of Toronto Press, 1954.

This study is about the relations between the federal government and the largest and most powerful provincial government in Canada. It is unique in that regard because most studies of federal-provincial relations usually concentrate on either the federal government or one (usually Quebec) or more (e.g., the Maritimes) of the provinces but never on Ontario.

To Ontario the key aspect of federal-provincial relations is finance. It is not constitutional nor jurisdictional matters. This must be clear from the beginning because that is why the Report concentrates on finance, relegating constitutional issues to part of the discussion on relations between Ontario and Quebec.

In tracing the evolution of Federal-Ontario relations since the end of the Second World War it becomes clear that there is now an impasse on the issue of "the distribution of powers and authority between the common government on the one hand and . . . the provincial government on the other". In other words, one party has a surplus of revenues in relation to fixed commitments, for the other, quite the reverse.

The fact, in and of itself, could and has caused problems. But the historical process whereby this state of affairs occurred makes the matter worse. Throughout most of the period 1945-1965 there were good, co-operative relations between the governments of Canada and Ontario. Since 1966 these relations have been strained, at times approaching confrontation. Co-operative federalism became transformed into confrontation federalism.

One factor has been the Province of Quebec. Quebec has a greater impact on the Canadian federal state than all the other provincial governments combined. As a consequence the federal government may be responding to Quebec initiatives, either positively or negatively, and ignoring the impact of such a response on Ontario. More importantly, Quebec's stands have often prevented a logical matching of revenues and responsibilities.

For example, at one time (1951) the federal government could assume the cost of a program (old age assistance). That avenue no longer appears to be open. Therefore, the only alternative appears to be to give Ontario and the other provinces more taxing room. However, there are problems with that solution if



the federal government is going to continue to be able to meet external threats of a commercial nature and to ensure equalization among regions internally. Thus the Canadian federal state appears to be firmly impaled on the horns of a dilemma.

While the main thrust of this Report deals with relations between Ottawa and Ontario on financial matters, there is also a chapter on interprovincial relations. Much of this chapter deals with relations between Quebec and Ontario, not only with Mr. Robarts' attempts to help Quebec on constitutional matters but also on the important political and bureaucratic ties between the two largest provinces. The Report goes on to deal with other aspects of intergovernmental relations, such as the current dispute with Alberta, as well as with the growing number of interprovincial conferences in a variety of functional areas.

In conclusion, the Report looks briefly at the future in an attempt to determine what all of this means for the Canadian Confederation in the '70's.

The research program which lead up to the publication of this Report involved a number of interviews with key participants in federal-provincial relations from both politics and the bureaucracy and from both the federal and provincial sides. It also involved the analysis of key documents, mainly primary documents, but secondary documents as well.

From the outset it was agreed the research study should not produce a detailed chronological statement. What was required was an interpretation of the major events of the period, the people that shaped them and what this meant for the future.

The Report is the result of the completion of the research program. It describes briefly the major forces which shaped federal-provincial relations in the seventeen years after the Second World War. It enters into more detail when the 1960's are analyzed, with special emphasis on 1966. Finally, it attempts to determine how the early years of the 1970's serve and assist in predicting the future.

One final point should be noted. While there has been so much work done in the area of federal-provincial relations that bibli-

ographies have been produced, the published research has been concerned in large degrees with relations between the federal government and the less affluent provinces. There is little published which relates solely to the relationship between the government of Canada and the government for the largest and wealthiest of the provinces, Ontario. Perhaps of greater significance is the fact that there is scarcely any published material outside the news media on interprovincial relations. And in this area even the media has missed many significant conferences and decisions.

# Federal-Provincial (Ontario) Relations 1945-1962

## The Period of Majority Governments

In analyzing historical periods it is always difficult to choose cut-off points. Therefore, an arbitrary decision has to be made, usually based on some tenuous line of reasoning. In this case, 1962 was chosen as a cut-off point because at the federal level it marked not only the last full year of John Diefenbaker's Prime Ministership but also the end (temporarily? ) of majority Parliaments. The year 1962 also marked John Robarts' first full year as Premier. In addition, 1962 saw the beginning of the 1962-1966 Fiscal Arrangements, which were significant in that they marked the end of the tax rental system and the beginning of the tax collection agreements. These Arrangements had been agreed upon by both Diefenbaker and Frost.

The 1945-1962 period began with a firmly entrenched Liberal Party in power in Ottawa and a recently elected Progressive Conservative Party in power in Ontario. The period ended with a firmly entrenched Progressive Conservative Party in power in Ontario and a temporary Progressive Conservative government on its way out in Ottawa. This marked a basic shift from stability in Ottawa to stability at Queen's Park.

In terms of personality there had been three Prime Ministers at Ottawa, W. L. MacKenzie King (1921-26, 1926-30, 1935-48), Louis St. Laurent (1948-57) and John Diefenbaker (1958-63). All three had commanded comfortable to large majorities in the House of Commons with the exception of a brief period in 1957-58. But the period which had been marked by parliamentary stability ended with an obviously temporary minority government.

In Ontario, although there were four Premiers, George Drew (1943-48), T. R. Kennedy (1948-49), Leslie Frost (1949-61), and John Robarts (1961-71), it was in many ways the Frost era because not only was Frost Premier from May of 1949 to November of 1961 but he had been Treasurer before that.

Canada had emerged from the Great Depression and the Second World War with a powerful central government and a cabinet and bureaucracy secure and confident in its own abilities and powers. Furthermore, throughout the period there was a great deal of rapport among officials between the two levels of government. No seer in 1945, nor in 1955, not even perhaps in 1962 would have dared predict the growth of provincial power to the extent it has increased in the passing years.

The era began with a Federal-Provincial Conference, or Dominion-Provincial Conference as they were then called. This was in August of 1945 and the conference was on reconstruction. At this and subsequent meetings the federal government set forth proposals in five categories:

- The distribution of tax fields;
- Universal old age pensions;
- Health insurance grants;
- Federal responsibility for full employment;
- Public investment policy.

Only Ontario's Premier Drew submitted a complete set of counter-proposals. These covered a wide range of matters. He proposed that:

1. Under uniform enactments, both federal and provincial governments should tax personal and corporate incomes with the federal government as the collection agent. (Under this



scheme, corporate income tax would be allocated among provinces in proportion to sales and the provinces alone would tax inheritance.)

2. A co-ordinating committee, not the federal government alone, would time public investment projects by passing upon the eligibility of projects for grants.
3. Pensions of thirty dollars per month should be paid to all Canadians over 65 not merely over 70 by the federal government alone. The federal government did not find it possible to accept the Ontario proposals\* and in fact several of the other provinces were not favourably disposed towards them.

In 1947 Ontario, along with Quebec, did not enter into the Federal Provincial Tax Agreements which were signed by all other provinces.

In 1950 a Federal-Provincial Conference was held to discuss renewal of the 1947 agreements, old age pensions, and the provincial retail sales tax. Agreement was reached on most major points and apparently the Conference met in the spirit of co-operation<sup>+</sup> much more than did the Conferences of the mid-Forties. This was due in large part to the moderation of the federal government's approach on the one hand, and on the other hand to the conciliatory attitude of most provincial premiers especially Ontario's new Premier Leslie Frost.

### **The Crucial Leadership of Leslie Frost**

The change from George Drew to Leslie Frost as Premier of Ontario was more than a change in personality. It meant a real shift in Ontario's attitudes towards the federal government. Drew was difficult to deal with. He was the same ilk as two Liberal predecessors, Oliver Mowat and Mitchell Hepburn. All three chose to assert Ontario's position opposite the federal government in as forceful a fashion as possible.

Frost took a different approach. In his 1950 budget address he stressed that one of the problems of federal-provincial relations

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\* Drew subsequently made another proposal where he offered to rent personal and income taxes but his price was too high.

+ An important external factor was the outbreak of the Korean War which resulted in a more national outlook.



was “that the difficulties are exaggerated and the remedies are minimized”. He went on to add, “What we need is to introduce a little spirit of co-operation, goodwill, determination, and the machinery to get things done and as far as this Government is concerned, we have already started.” This spirit of co-operation prevailed throughout most of the Frost era.

In 1950 the federal Minister of Finance, Douglas Abbott, sent out his initial proposals in regard to proposed changes to the tax renewal agreements for 1952. Under the proposed agreements rental payments were based on the revenue yield from income taxation. In addition, each agreeing province was required to levy a 5% tax on corporate profits, which was deducted from rental payments. This eliminated any discrimination against Ontario and Quebec. If they didn’t enter the agreement they could still impose their own tax. During the 18 months of negotiation Ontario maintained an enigmatic attitude.

In the spring of 1951 the Ontario government claimed that the federal government had an obligation to pay Ontario the amount of tax it would have collected if it had taken advantage in 1951 of the 5 percent tax credit. This was supported in the Ontario press but not by the Government of Canada. Then, in August 1952, there was a surprise announcement by Premier Frost that he and Mr. Abbott had reached an agreement basically the same as that offered at the 1950 Conference. The sole difference was that Ontario retained the right to levy succession duties. A special session of the Ontario legislature was called in October, 1951 and the agreement was signed on October 29.

In October, 1955 there was another Federal-Provincial Conference. The federal proposal suggested:

1. Federal assistance to the provinces no longer be dependent on the provinces renting their tax field to the central government;
2. Equalization grants would be paid to the less wealthy provinces to bring the yield from the standard taxes up to the level of the two wealthiest (Ontario and British Columbia);
3. Provinces that chose not to rent their income tax and succession duty fields to Ottawa would be free to impose and administer their own taxes.

As there had been a shift from war to peace time priorities, provincial optimism had grown. Ontario along with British Columbia, Alberta and Quebec responded by stressing the heavier costs of the rapidly developing areas and the fact that they received little return from the existing tax system to do the needed job. Premier Frost made it clear that he wanted a greater share of the personal and corporate tax field; however, he did not shut the door as did Premier Duplessis of Quebec on rental. At the same time, the Province of Ontario made a formal submission calling for a federal-provincial study of a national health services plan and the establishment for that purpose of a subcommittee on health services consisting of ministers of finance and health. This was agreed to.

On July 31, 1956 Parliament passed the Federal-Provincial Tax Sharing Arrangements Act which covered the period 1956-61. Under this arrangement the provinces were to receive 10 per cent of the personal income tax (subsequently raised to 13 per cent), 9 per cent of the corporation profits and 50 per cent of federal succession duties. One other important feature of the Act was that it provided for an unconditional equalization payment in order to bring the per capita yield from the tax rental payments up to the weighted average of the two highest provinces (Ontario and British Columbia). Ontario, along with Quebec, and unlike the other eight provinces, did not sign.

In his February, 1957 budget, Mr. Frost introduced an 11 per cent corporation tax which was, by two per cent, the highest in Canada. Mr. Frost defended this by saying that business was benefiting from the growth of Ontario and many government expenditures were related to and assisted this expansion.

Ontario also collected its own succession duties. However, on April 16, 1957, Ontario did sign an agreement to rent its personal income tax on the same basis as the other provinces, i.e., ten per cent of the federal tax.

### **A Change At Ottawa**

Later in 1957 the unexpected happened. John Diefenbaker led the federal Progressive Conservatives to a minority victory over the Liberal party. At a Federal-Provincial Conference called in November of that year Mr. Diefenbaker proposed changes in the existing arrangements. Premier Frost asked for a greater share of direct tax revenues so that Ontario and its municipalities could develop their services to keep pace with the developing econo-



my and exploding population. A consensus was reached that all provinces needed either a larger share of the rental payments or more tax sources. In January, 1958 the federal government announced an increase from 10 to 13 per cent in the personal income tax available to the provincial governments.

Frost described the attitude of the new federal government as being “cordial and receptive”. He went on to add that “No other Federal-Provincial Conference had produced such quick results.”

In April, 1957 the Hospital Insurance Diagnostic Services Act had been passed. Ontario’s attitude to the plan was positive. Premier Frost had called for a study of this matter in 1955. On January 1, 1959 Ontario and Nova Scotia inaugurated their plans, the sixth and seventh provinces so to do, six months after the scheme began. It is important to note that this entry of Ontario into what became a major shared cost program was made with a reasonable degree of harmony unlike Ontario’s entry into Medicare, a decade later.

A Conference was held in July 1959 in preparation for final negotiations of the 1962-67 fiscal arrangements. At that Conference, Premier Frost reiterated his stand of the 1957 Conference but he seemed more resolute in his demands for a “fair share”. He reviewed demands on his government in the fields of education, health, highways etc., and then requested either 50 per cent of the personal and corporate income tax or a constitutional amendment to permit him to levy an indirect provincial sales tax.

That Conference might be summed up by saying that Ontario and British Columbia wanted a greater tax share, the Atlantic provinces wanted greater equalization, Quebec wanted both, and the federal government stood firm.

In February, 1961 the federal government made an offer. One aspect of the offer called for the discontinuance of tax rental and the redirection by the federal government of their personal and corporate tax rates which would make “taxing room for the provinces” with each province free to legislate its own rates and the federal government collecting. This offer recognized provincial autonomy and provincial needs. In addition, natural resource revenues were to be included in the equalization formula.

Equalization\* was modified from the top two to the national average. It is fair to say that Ontario had won some of its main points.

In summary, the Frost era ended with Ontario and the other provinces in a position to levy their own taxes rather than renting them from the federal government. While the basic format has been revised and technically improved since, it is still the one with us today.

The Frost era also ended with shared cost programs, hospitalization, welfare, education, health and winter works just beginning to loom large in federal-provincial accounts. It is interesting to note that in 1961-62 federal conditional payments to the provinces exceeded unconditional payments for the first time in a decade. A decade earlier when that situation occurred the federal parliament passed the Old Age Assistance Act (June 1951) which authorized payment of old age and blind “assistance”.

While Frost had welcomed hospitalization in particular, it should be clear that he had his reservations about shared cost programs in general. At the 1960 Conference Frost sounded this prescient note. He said shared cost programs whetted the appetites of the provinces with their own money “with the provinces’ proportion of the major direct tax fields pre-empted by the federal government back in 1942-1945.” In spite of this warning the Frost era was less tension ridden than the years that followed.

### **The Decentralizing Role of Quebec**

While this is an analysis of Federal-Ontario relations, the topic of federal-provincial relations in Canada cannot be discussed without reference to Quebec. The roots of Quebec’s differences reach back to the time of the British conquest in 1760. The people of Quebec committed themselves then to a policy of *la survivance*. The strategy to attain that policy was the revenge of the cradle.

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\* While equalization does not play a significant role in Ontario’s history, it must be remembered that it was almost the lifeblood of some of the poorer provinces. Therefore it was an important part of federal-provincial relations generally in this period.



Even after Confederation Quebec showed its concern to assert provincial rights within a federal state. In 1887 Honoré Mercier, Premier of Quebec, organized Canada's first inter-provincial conference in Quebec City.

In 1945 given the great powers and confidence of the federal government it was possible to believe that even Quebec would succumb to the federal authority. And while George Drew of Ontario fought the central government, a senior Ontario official of that day gave Premier Maurice Duplessis the honour of being the man who consistently fought against Ottawa's centralizing tendencies with the greatest effect. Ironically enough in some ways the federal government's actions forced Duplessis' reaction. Its decision to concentrate on social policy rather than economic development posed a direct threat to Quebec's whole cultural and social *raison d'être*.

Duplessis had first come to power in 1936 after an aging Liberal administration which had been in power since 1897. In 1939, concerned about the war effort, the federal Liberals threw all their forces into Quebec and managed the defeat of Duplessis and the re-election of Adelard Godbout. However, Duplessis was returned to power in 1944 and governed Quebec with a firm hand until his death in September, 1959.

Therefore, the story of most of this period as far as Quebec is concerned is the story of one man, *le chef*, Maurice Duplessis and his unspectacular but constant fight against the centralizing Liberals in Ottawa. But the dramatic changes which brought Quebec to the attention of the rest of Canada followed shortly after his death.

Duplessis was followed as Premier by Jean-Paul Sauvé who died suddenly and tragically in January, 1960 less than four months after becoming leader. He in turn was followed as Premier by Antonio Barrette who was defeated by Jean Lesage in June of 1960. Lesage was re-elected in November of 1962 on the slogan "*maitres chez nous*". Many people attribute the changes in Canada's federal state to forces unleashed by Lesage's slogan. These changes coincided with major social, economic, cultural and religious shifts that extended into every part of the province.



Quebec had put its past behind. It emerged as a new, dynamic force in Confederation, an urbanizing, industrial state with modern motivation.

The story of the Lesage years is well known and well documented. Suffice it to say here that Lesage started Quebec on a course which both defined and enlarged the province's image of autonomy. He was aided and abetted in his endeavours by powerful ministers such as Rene Levesque, Eric Kierans, Paul Gerin-Lajoie as well as by senior advisers such as Claude Morin and Jacques Parizeau. Some of these individuals subsequently joined the separatist Parti Quebecois.

It is important to remember, in conclusion, that Lesage had an impact not only on federal-provincial relations but also on interprovincial relations. In 1960, in the tradition of Honoré Mercier, he initiated the first interprovincial conference in 34 years. Henceforth they became annual affairs. At the first 1960 conference, in Quebec City with Jean Lesage as host, they were very conscious of the fact that some people might simply see this as a method for the provinces to "gang up" on the federal government. Therefore, they took great pains to dispel that image until 1966—but that is a part and a crucial part of a subsequent chapter.



# Federal-Provincial (Ontario) Relations 1963-1965

### Co-operative Federalism

The post-1963 period presents a startling contrast with the period that preceded it. On the federal side, parliamentary majorities became the exception rather than the rule. On the Ontario side, there was not only political stability but also the growth of a dynamic, youthful, energetic and expert civil service which challenged the Ottawa bureaucracy.

In the decade 1963-1973, there were four federal elections and three Ontario elections. In Ottawa three of the four elections returned minority Liberal governments and the fourth returned a majority Liberal government. In contrast, in Ontario there was stability with no changes from majority Conservative governments in three elections.

At the federal level, 1963 saw the defeat of the Conservative government. John Diefenbaker was followed by Lester B. Pearson, whose expertise was in international diplomacy and conciliation. In Ontario this period marked the emergence of John Robarts as a personality of national standing and stature.

The year 1963 was marked both at Ottawa and in Ontario by elections. In Ontario the Conservatives, led for the first time by John Robarts, were once again successful. In Ottawa, the Liberals, running for the third time under Mike Pearson's leadership, were finally successful in toppling the Conservatives.

While it is true that the Liberals just had a minority government, they had the spirit of co-operative federalism. One Ontario official remembers the July, 1963 federal-provincial meeting on the Municipal Development and Loan Plan. Right in the middle of the meeting Pearson reversed a federal position and conceded to the provinces the right to administer their own plans\*. Ontario along with Quebec, Manitoba and Saskatchewan did just that.

But there is something much more significant for the whole era than specific instances such as these. In 1960 the Liberal Party held a Thinkers Conference in Kingston. At that Conference a paper entitled "Towards a Philosophy of Social Security" was presented by Tom Kent. Mr. Kent was an English journalist and economist. His views were shaped in England by the best liberal traditions of that unitary state. He came to Canada where he was first editor of the Winnipeg Free Press, then Vice-President, Chemcell Ltd., Montreal, then Special Consultant to Mr. Pearson. With the election of 1963 he became Co-ordinator of the Programming and Policy Secretariat to the Prime Minister.

Mr. Kent's paper had a profound impact on the Kingston Conference and on subsequent Liberal Party policy. Since his paper and subsequent party policy called for a pension plan, medicare, youth allowances, student loans and municipal loan programs it is interesting to recall what he said about intergovernmental relations:

"I shall list them (his proposals) without distinguishing between (sic) federal, provincial and municipal responsibilities. In a paper such as this, we are concerned with the responsibilities of government as a whole: the problems of federal-provincial co-operation need a think session of their own."

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\* A former Ontario politician also remembered the November, 1963 Federal-Provincial Conference when the federal government changed back the basis of equalization from the "national average" basis which had been agreed upon by Diefenbaker and Frost to the "top two provinces average" only a year after the plan had gone into effect.



Apparently that discussion never took place although the Liberal party platform did call for opting out of shared cost programs.

Against this background, activities in Ontario were, at least outwardly, relatively quiet. In the two years of 1962 and 1963 there were practically no references to federal-provincial matters in budget addresses, in spite of quite extensive references in both 1961 and 1964 and in spite of the fact that the same man, James N. Allan, delivered all four addresses.

In Quebec, in contrast, the issues were being more actively pursued. Lesage's work for special status for Quebec led to a continuation of the November, 1963 Federal-Provincial Conference in Quebec City in the spring of 1964. It was unprecedented to hold such a conference outside the nation's capital and many observers at the time and since felt that Prime Minister Pearson was wrong to allow it to be held there.

At the Conference, against a backdrop of student protests and late night Quebec cabinet meetings, Quebec took an unyielding position, where it demanded contracting out of a number of program areas and specifically out of the Canada Pension Plan, which was not even an agenda item. The Quebec attitude upset the other Premiers and Quebec stood alone against the rest of Canada. To many, Confederation seemed endangered.

A concrete proposal that received acceptance from all parties at the Quebec Conference was the establishment of the Tax Structure Committee. The Committee was to be composed of 13 ministerial members, one from each province and three from the federal government. The task of the Committee was to review the whole question of the relations between federal and provincial taxes with the objective of producing a report in time for discussions covering the fiscal arrangements beyond April 1, 1967. This was an attempt, in the area of co-operative federalism, to study the multi-level fiscal system of Canada and bring forward hard facts on which to make decisions.

That was the stated objective. The reason it emerged from that particular conference was because it was a diplomatic sleight of hand which helped to relieve the tension which was being caused by the government of Quebec and to reduce the pressure on Prime Minister Lester Pearson. By the device of the Tax



Structure Committee, Premier Robarts was able to divert the discussions to a more neutral path.

The Honourable Walter Gordon, then Minister of Finance, described this Tax Structure Committee as being comparable to the Rowell-Sirois Royal Commission.

After the backdrop of hostility and tension of the Quebec Conference federal-provincial relations took an abrupt turn for the better. Ottawa worked out a deal with Quebec in which the provisions of the Canada Pension Plan could be molded with those of the Quebec Pension Plan. Perhaps of as great a significance was the decision of Ontario to stay in the Canada Pension Plan. In Premier Robarts' eyes, this was a conscious decision based on a broad concern for Canada as a nation.

From an Ontario point of view there were a couple of specific and positive developments which arose from the Quebec meeting. One was that John Robarts realized that in future it was important that Quebec should not be isolated. Understanding the Quebec position was seen as essential in order to keep Quebec in Confederation.

The basis for the dialogue was the recognized need for the two central provinces to co-operate on a number of important matters which involved them and the federal government. This was not a new development. Mercier had co-operated with Mowat, and Taschereau with Ferguson, and Duplessis with Drew and Frost. But it was the first time that co-operation had been on an other than first minister to first minister basis.

This relates to the second development. Premier Robarts saw the calibre of Jean Lesage's advisers. He undertook to assemble a strong advisory group comparable to that of Quebec. That decision had an important impact on both federal-provincial and interprovincial relations.

Another important outcome of that Conference although it did not appear to be important to Ontario at the time, was the federal government's opting out proposals. In August of 1964 Pearson made good on a Liberal Party platform which had first been announced in the House of Commons in July of the preceding year by writing all Premiers offering them the opportunity to opt out of certain programs.

The most important program was hospital insurance but old age assistance, blind and disabled pension allowances, the welfare portion of unemployment assistance, vocational training, and health grants were also included. If a province opted out of all five programs, they would receive an additional 20 points of equalized personal income tax in lieu of conditional grants. Only Quebec took advantage of the offer.

Opting out is important for what it illustrates in Canadian federal-provincial relations. First of all, it is an example of how federal-provincial relations in Canada have been influenced by the decentralizing tendencies of the Province of Quebec and its views of its constitutional rights and responsibilities. Secondly, it is important because it illustrates how a Quebec initiative, originally rejected by other provinces, gradually became attractive to a number of the other provinces.

Almost as a footnote, it should be noted here that opting out was almost pre-ordained by the federal government's postwar decision to enter the social policy area. That decision forced Quebec and later some of the other provinces, foremost among them being Ontario, to resist federal intrusion into provincial fields.



# Federal-Provincial (Ontario) Relations 1966

### Confrontation Federalism Begins

The single most important year in federal-provincial relations was 1966. The preceding year had been marked by only two major events but they are worth noting. The first was a Federal-Provincial Conference called primarily to discuss health and welfare topics which was conceded to be successful. The other event was a precipitous federal election which left the government where it was before it began, in a minority position. Walter Gordon, who had advised the Prime Minister to call the election, felt so badly about his advice that he resigned as Minister of Finance and on December 18, 1965 Mitchell Sharp became Minister of Finance.\*

Turning to 1966, so many events occurred in the field of federal-provincial relations that it is difficult to chronicle them all. There were two major occurrences, however, which have strained federal-provincial relations ever since. They were the announcement of Medicare and the treatment (or lack of treatment) of the Report of the Tax Structure Committee. As if those two were not enough, the federal government in that year

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\* Among those elected to the new House of Commons for the first time was Pierre Elliott Trudeau.



also announced its intention to abandon shared cost programs. In the same year that they had just announced the biggest shared cost program of them all, Medicare. This further announcement did nothing to endear them to the provinces. And on top of all that Tom Kent was moved from the Privy Council office to the post of Deputy Minister of Manpower and Immigration where he asserted Ottawa's responsibility for the occupational retraining of adults after Ontario had already set up an elaborate program.

But these were not the only events of that heady year. At least four others are worthy of mention. They are the Canada Assistance Plan (CAP), the Report of the Royal Commission on Taxation (the Carter Report), the defeat of the Lesage administration in Quebec and the negotiations of a new fiscal arrangement for 1967-71. It is not an exaggeration to say that 1966 was a year of system overload for federal-provincial relations.

In April the Canada Assistance Plan went into effect. It provided a basis for co-ordinating the various public welfare programs, old age, blind, etc., in each province. It is the chief example of co-operative federalism in a year which can only be described as the end of the era of co-operative federalism.

Hanging over the year, adding an unnecessary air of uncertainty to events, was the long awaited Report on Taxation. Since the Report would have important implications for the new fiscal arrangements the uncertainty did not help in a year which already was suffering from a multitude of tensions.

In early June, 1966 the rest of Canada learned that Jean Lesage and his *la politique de grandeur* had been defeated by Daniel Johnson's Union Nationale. In spite of Lesage's moves to make Quebec different he was still regarded affectionately in most parts of Canada. His successor was relatively unknown and the U.N. party was distrusted. People concerned about Confederation were not reassured by this sudden change in events in Quebec.

But the two events which really caused the end of co-operative federalism and the beginning of confrontation federalism not only in Ontario but also in the other provinces were Medicare and the federal treatment of the Tax Structure Committee Report. In some ways the two incidents impacted differently



with Medicare embittering the politicians more, while tax structure embittered the bureaucrats more.

## Medicare

In May the federal government announced the program of universal compulsory Medicare to go into effect on July 1, 1967. Ontario, along with all other provinces except Saskatchewan,\* opposed it. Immediate opposition to the announcement was so great, even within the Cabinet, that in early September, just four months after the original announcement, the date of commencement was postponed until July 1, 1968.

The announcement had come two months after Mitchell Sharp, in his 1966 budget speech, expressed the view that there was a need to find a balance between “matters of national importance and . . . *the need to respect provincial responsibilities and provincial judgments about matters within their jurisdiction.*” The subsequent announcement of Medicare was considered by Ontario as inconsistent with this position.

The issue of medical care insurance was an old one in Canadian political history. As early as 1919, the Liberal party at one of its few early national meetings adopted a resolution calling for a national medicare scheme.

At the Dominion-Provincial Conference of 1945, the matter of medical service insurance program was also proposed but not thoroughly discussed. When MacKenzie King announced his program of national health grants in 1948 he stated that:

“These measures should be regarded as fundamental pre-requisites of a nation-wide system of health insurance . . . (and) also represent first stages in the development of a comprehensive health insurance plan for all of Canada . . . ”

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\* One might have expected that Premier Ross Thatcher would have been the last to support such a program but he had inherited a medicare program from the NDP and welcomed any federal financial assistance he would get.

In Tom Kent's paper, "Towards a Philosophy of Social Security", medical insurance was the first item on his "Agenda for Consumption". This item became a Liberal party platform plank.

Meanwhile Conservative Prime Minister John Diefenbaker appointed a Royal Commission on Health Services, chaired by a fellow Saskatchewanite Justice E. Hall. The task of the Commission was to make a comprehensive study of national health requirements. The Commission was specifically charged with the responsibility of considering the establishment of a national health insurance scheme. In 1963 the Province of Ontario countered by establishing a Medical Insurance Committee (the Hagey Committee) to consider a provincial health insurance plan.

When the Hall Commission reported in 1964, it recommended a publicly administered universal, comprehensive pre-paid health insurance plan that would involve joint public/private negotiations regarding fees. When the Hagey Committee reported later in 1964, shortly after the Hall report was made available, its recommendations differed from Hall's in three basic aspects: compulsory participation, prepayment and government control. This accurately reflected the private sector bias of the Ontario government.

But there were other reasons for Ontario's opposition. Not the least of these was that Medicare was not at the top of Premier Robarts' priorities.

This was the period when Ontario was spending huge sums at a rapidly escalating rate on education. \* So education was the major priority. At the same time Mr. Robarts felt that the federal energies could be better spent fostering national unity and on encouraging economic growth than on Medicare.

Neither could Robarts see the necessity of a universal plan when somewhere in the neighbourhood of 96 per cent of all Ontario

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\* In Tom Kent's paper, "Towards a Philosophy of Social Security", he urged a "massive improvement in our educational systems." He wanted smaller classes as in private schools. Given a substantial increase in the public sector, he saw no necessary conflict in increases in social service expenditures in several areas.

residents were already covered. The poor were covered by government programs (some of which the federal government declined to participate in) while the people who could afford it were insured by and large by private carriers. In point of fact there is a startling contrast in approach between the federal government and a number of provincial governments. While the federal government saw Medicare as a program for the poor, some provincial governments perceived it otherwise.

Ontario had learned from a decade of experience with hospitalization that when the federal government assumed the cost of the most expensive aspect of a program, e.g. the hospital, the province was burdened with related services which were not cost shared and in which there was little room for economy. Ontario saw that the federal government was repeating its key mistake. In Medicare, the federal government would pay for the highest area of cost, i.e., the physician, whereas cheaper services were not cost shared. Ontario's attitude towards Medicare, therefore, was strikingly different from its attitude towards hospitalization.

It must be clear that the battle over Medicare was not just a battle between the big C Conservative Ontario government and the small l liberal government in Ottawa. Rather, it was a struggle between a federal government with a very popular political proposal and the provincial governments who knew they could not afford that proposal. The reluctance of the premiers was very much a question of dollars and a question of timing. They knew Medicare would happen, but they didn't know how they could pay for it.

All provincial premiers, except Thatcher of Saskatchewan, were hostile to the proposal. They felt strongly about it and at the 1966 Premiers Conference in Toronto the provinces discussed the matter at some length. Since Medicare falls within the jurisdiction of the provinces, it is a bit unfair to represent them as "ganging up" on Ottawa. In any case, they no longer avoided the appearance of a solid front and they openly attacked the federal medical care proposal. Medicare appeared again on the agenda in 1967 when the provinces requested the federal government to call a Federal-Provincial Conference "to discuss fundamental changes in the national medical care program".



In 1968 the premiers again echoed their concern about Medicare. Once again they sent the Prime Minister a telegram requesting another federal-provincial conference to consider ways of financing Medicare. The Provinces of New Brunswick and Prince Edward Island expressed their key reservations about Medicare, i.e., they could not afford it. The telegram reiterated the view of the 1967 Conference, that the premiers supported a national Medicare program but one that was non-compulsory.

One point became abundantly clear as a result of the federal government's Medicare proposal. In spite of the almost unanimous opposition of the provincial governments to the federal proposal, the fact remained that there was no inter-provincial mechanism which could prevent the proposal from becoming a reality.

While Ontario eventually capitulated, John Robarts saw Medicare as "a deliberate attempt by the Federal Government to use federal fiscal policy to intrude into areas that are the constitutional responsibility of the province." To this day many senior political people in the Province of Ontario do not feel that Medicare has resulted in better health care for the average Ontario citizen but rather has simply resulted in a greater drain on the tax dollar and a distortion of provincial spending priorities.

In conclusion, Medicare was a major blow to federal-provincial relations, especially at the political level. The provincial premiers could see that Medicare was politically popular and impossible to resist. But they also saw it as being put forward by an irresponsible federal government which would gain political kudos but would not share adequately in the real costs. Furthermore, provincial governments were becoming increasingly concerned about shared-cost programs which, even without Medicare, were 2.5 times larger than unconditional grants to the provinces. When the Tax Structure Committee reported in 1966 it added fuel to this contention because it showed that for all intents and purposes the federal government did not have the competing demands on its treasury that the provinces had on theirs.

The provincial governments could not see that people were denied necessary medical aid under the existing system. They also viewed Medicare as another unwarranted intrusion into the

provinces' sphere of responsibility. Nor were they ever comforted by the thought of the federal government instituting a very costly new program with the stated intention of abandoning it.

## **Tax Structure Committee**

As was mentioned earlier, the Tax Structure Committee grew out of the Quebec City Conference of April, 1964. It represented a first attempt by the two levels of government to look realistically at their revenue and expenditure requirements. The report was to be ready for the discussions covering the 1967-71 fiscal arrangements.

The attitude of Ontario, and indeed of all the provinces, to this approach was reflected in the Ontario 1965 budget. The Treasurer stated:

“We are confident that the findings of the Tax Structure Committee will provide us with a firm basis on which to determine the fiscal arrangements to be adopted following the expiry of the present arrangements in March, 1967.”

The 1965 budget address also referred to the importance of co-operation between the two levels of government and was optimistic about the future.

The 1966 Ontario budget address again stressed the importance of the work of the Tax Structure Committee. The Treasurer first referred to a recent meeting of Ministers of Finance and Treasurers, “particularly when it was backed up by the research work that is being done by all governments in concert for the Tax Structure Committee”.

Sixteen pages later he stated:

“As we are all aware, the entire field of taxation and public finance in Canada is under exhaustive study. For some time, various government committees and commissions have been working in this field. Through the Tax Structure Committee, the federal and provincial governments themselves are engaged in a comprehensive review and examination of the responsibilities, revenues, expenditures and future requirements of all levels of government in Canada. As a result of



these studies and investigations, we anticipate that the tax structure can, in the long run, be adapted to provide a more equitable allocation of revenue resources relative to expenditure responsibilities. It is with this thought that we shall approach the Federal-Provincial financial negotiations, which will demand much attention in the coming year.”

Four pages after that he concluded:

“Through the exercise of the Tax Structure Committee, we not only have a sobering view of what is in store but we also have guidelines to the fiscal requirements of each level of government. Consequently our policies must be formulated with a view to possible redistribution of tax revenues commensurate with future requirements for provincial expenditures.”

The 1966 budget address was the eighth and last budget address delivered by the Honourable James N. Allan. While it recognized the need for a strong central government and the need for co-operation, it also expressed the views and intentions of the province in somewhat more assertive terms. There was evidence that this budget was different from earlier ones. This was the first budget address prepared by the new group of advisers that John Robarts had started to recruit after the 1964 Conference.

In the federal budget address in March, 1966 the Honourable Mitchell Sharp made it clear that he too regarded the Tax Structure Committee as being of major importance:

“This will be a crucial year for the Federal-Provincial Tax Structure Committee which, as the House knows, is conducting a broad review of the fiscal relationships between the federal and provincial governments.”

He even quoted from the Ontario budget:

“The Provincial Treasurer of Ontario said in his Budget Speech last month, ‘It is becoming increasingly clear that the combined total of provincial and municipal expenditures will continue to grow at a much more rapid rate than the corresponding federal commitments’.”

There was nothing in his statement that the provinces had to “have access to sufficient revenues to finance their responsi-

bilities” with which the provinces could quarrel. Nor was there anything which would cause them concern about the fall meetings.

The Tax Structure Committee met on September 14 and 15. The basic findings of the Committee, which were never published, showed that the provincial governments had growth expenditures such as education while the federal government had growth revenues. If trends continued, provincial/municipal deficits would increase from about \$900 million to about \$2.1 billion. The federal government on the other hand, would move from an approximate balance to a surplus position of some hundreds of millions of dollars.

These findings confirmed the provinces’ worst fears. But what really stunned them was the statement of the Honourable Mitchell Sharp:

“The conclusion seems clear: the problem is not lack of access to revenue resources, but rather the difficulties the Provinces face—in company with the Federal Government—in raising tax levels that are already high.

“The conventional approach to this problem, during the post-war period, has been to argue that the Federal Government should reduce its taxes so as to give the Provinces more ‘tax room.’ This is an understandable argument if federal tax yields are rising more rapidly than required. But when federal revenues are required to meet federal expenditures, or to reduce a deficit to create a surplus for economic reasons, then this approach is unhelpful and even misleading . . . ”

Ontario’s reaction, as reflected in its 1967 budget, delivered by a new Treasurer, the Honourable Charles MacNaughton, was understandably negative:

“The position which we put forward in these negotiations was based on the work of the Tax Structure Committee which demonstrated that expenditure responsibilities of the provinces would far out-pace their revenue resources over the next five years. The financial position of the federal government, on the other hand, was shown to be far more favourable. Thus, we argued for a substantial transfer of taxing resources to the provinces to bring their revenue-raising

capacity more in line with readily discernible long-term needs.”

The Treasurer continued:

“The results fall far short of our expectations and our needs. The new arrangement merely provides a minor improvement in the basic fiscal imbalance between our two levels of government. It does little to match revenue sources to expenditure responsibilities over the longer term. As a result, we shall be obliged to undertake the same exercise again within the next two years.”

On this issue, as on Medicare, Ontario’s reaction was not unique; rather it was typical.

On the face of this evidence one has to wonder why the federal government acted as it did. In this, as in many other areas, Quebec was a significant factor. Whatever the reasons for the federal government’s ignoring of the Tax Structure Committee it dealt a grievous blow to relations between the two governments at the official level. No longer did Ontario feel that Ottawa could be trusted.

### **The October Conference**

At this Conference of first ministers the Report of the Tax Structure Committee was officially tabled. Its basic message and Ontario’s reaction are contained in the preceding section.

The Conference had also to work out a new fiscal arrangement. Since there were to be further changes once the Carter Report was received and digested, the arrangements were only to last for two years.

The new proposal contained a major change in the equalization formula. The basic purpose of the new system was to equalize tax revenue given approximately even tax capacity. The base was expanded from four taxes to sixteen to make it capable of taking into account more provincial variation. Equalization was to be to the national average rather than the top two or three in order to keep costs within limit. The new system saw payments jump immediately from \$355 million in 1966-67 to \$550 million in 1967-68. They have climbed more gradually subsequently until they were over \$944 million in 1972-73.



Under the new formula the personal income tax abatement was raised by four points (to 28 percent) and the corporate by one point (to 10 percent). However, unlike previous fiscal arrangements, the additional abatement points were tied to a specific grant program—post secondary education aid.

At the '66 Conference the federal government had offered to let provinces opt out of hospitalization insurance, the health grants program and the Canada Assistance Plan programs. The compensation was to be 17 points. Neither Ontario nor any other province took up the offer at that time. This was part of a general federal proposal that they (the federal government) would be getting out of mature, shared cost programs.

Provincial reaction to this proposition was not favourable. Some provinces contended that the revenues proposed would not meet the rapidly escalating cost of the programs. This was a particularly sore point because most of the programs were federally inspired and there was, of course, the ever present recent example of Medicare. Finally, some provinces felt that these proposals were off base because the key issue to be solved was the provinces' over-all fiscal problems which had been highlighted by the Tax Structure Committee.

A final cause of trouble was the federal assertion of financial responsibility for the occupational retraining of adults. The federal government had moved in through Canada Manpower Centres and started to provide short-term on-the-job training in competition with Ontario.

## Conclusion

Rarely if ever have there been years of more intense federal-provincial activity than 1966. While there was the bright spot of the Canada Assistance Plan, basically the rest of the year was destructive of federal-provincial co-operation. While Medicare and the events surrounding the Tax Structure Committee were the main causes, the federal government's announced intention to withdraw from certain major shared-cost areas and to assert themselves in occupational retraining of adults were also contributing factors. The air of uncertainty relating to tax reform and the new fiscal arrangements did nothing to ameliorate the situation.



The basic positions enunciated in 1966 resulted in the breakdown of co-operative federalism and the introduction of confrontation federalism in that they left little room for negotiation.

# Federal-Provincial (Ontario) Relations 1967-1973

### Confrontation Federalism Continues

This period saw a change in first ministers in both Ottawa and Ontario by the process of party leadership conventions from Pearson to Trudeau in Ottawa and from Robarts to Davis in Ontario. Both Trudeau and Davis subsequently sought and received healthy majorities. For Ottawa it was the first majority government elected since 1958. Trudeau's majority subsequently became a minority in October, 1972.

In spite of these political leadership changes the basic theme of the period was unchanged from 1966, i.e., there was simply a continuation of confrontation federalism. Uncertainty was added to the debate by those political factors but tax sharing and shared cost programs continued to be the issues of the period.

An analysis of the federal and Ontario budgets shows a startling contrast in attitudes. In Ottawa the issues were basically ignored. In Ontario they were hammered at with an increasing ferocity reaching a fever pitch in 1971 and then subsiding somewhat in 1972 and still more in 1973.

In his 1967 budget Mr. Sharp made two references to the Tax Structure Committee. In the first reference Mr. Sharp stated that on the basis of the Report he had sought “through our fiscal arrangements to define more clearly the respective responsibilities of the two levels of government”. He later referred to the fact that data had been presented by the Committee which showed a “common need for increased revenues”. It is obvious that the provinces needed massive amounts of revenue to avoid deficits while the federal government needed money only for new programs and/or surpluses.

Ontario’s Treasurer, Mr. MacNaughton, took a tone of assertive confrontation. In his 1968 budget address he said: “Nothing short of comprehensive tax reform and a major redistribution of taxation fields will provide an intelligent solution to this problem.”

He emphasized that whereas “the inexorable pressures for government expenditure today” lie with “the burgeoning urban communities, it is the federal government which has access to the growth fields of taxation while the provinces have only the regressive fields.” He stressed that this put the federal government in a position to “invent new programs, largely within provincial jurisdiction” and that “through the shared-cost mechanism, the provincial government must then resort further to regressive tax fields to finance programs which may not conform to their priorities”.

“Total tax-sharing reform among the three levels of government” was required, he said. And he concluded, “. . . What is needed to meet these problems is co-ordinated action by all governments. We must establish priorities for government spending as a whole. We must reform the entire spectrum of taxation. Above all, we must agree on a division of tax fields which will enable each government to finance its responsibilities and commitments effectively.”

On the federal side lines hardened even further with the coming to power of Mr. Trudeau and his new Finance Minister, Mr. Benson. In his budget address Mr. Benson prefaced his remarks on all the federal government had done for the provinces by saying, “This government and this House recognize the financial problems being faced by the provinces—even the wealthiest of them, which is the most outspoken on the subject”.

The general attitude expressed by the federal government and Mr. Benson's specific suggestion to the provinces that they go out and raise taxes, just before the Ministers of Finance meeting in late '68, caused Mr. MacNaughton (and other provincial Treasurers) to react strongly. In his 1969 budget address Mr. MacNaughton referred to the need for a "fair-minded review of federal-provincial expenditure requirements and financial capacities . . . along the lines *promised* in the original terms of reference of the Tax Structure Committee in 1964."

He went on:

"It is with considerable disappointment, therefore, that I must report that our efforts to obtain a sensible resolution of the tax-sharing problem have gone unrewarded. At the meetings of Ministers of Finance in November and December, 1968, and during the Constitutional Conference in February of this year, the federal government maintained its refusal to negotiate new tax-sharing arrangements. Indeed, its insistence that each level of government develop its own expenditure priorities and tax policies has been reinforced recently by a series of unilateral expenditure decisions and pre-emptory tax moves without regard for their broader intergovernmental and economic consequences."

Foremost among these moves, he explained, was the Social Development Tax imposed in the federal budget of 1968. This tax, he said:

"contravened the spirit of intergovernmental co-operation in two ways. First, direct application of the tax to the taxable income base effectively excluded the provinces from sharing the revenues under the terms of the existing tax collection agreement even though, by common understanding and convention, the personal income tax is a shared-tax field. Second, since the Social Development Tax was clearly designed to finance the federal government's own share of medicare, it displayed a determination to implement federal priorities with little concern for provincial priorities and financial capabilities."

The Treasurer then attacked the federal government for



reducing payments under various shared-cost programs “without regard for the effects on provincial operations”. “Two examples”, he went on, “are particularly important and illustrative. First, its drastic curtailment of funds for the construction of medical training facilities is at variance with the desire to enforce medicare. Second, its decision to delay payments due to the provinces for costs already incurred under the vocational and technical training programs is inconsistent with the spirit of shared-cost programs.”

In a separate Budget Paper, “The Reform of Taxation and Government Structure in Ontario”, the government stated its intention to establish its own personal income tax system within the next two years. This move to an independent income tax system was seen as necessary to preserve the Province’s fiscal integrity and to achieve meaningful tax reform in Ontario. The Budget Paper covered the “three developments” which had “led to this decision”: The province’s need for greater access to fast-growing revenue sources; the impasse in federal-provincial tax-sharing; and the inadequacy of the present income tax abatement system to serve Ontario’s long-run finance and reform objectives.

All of the above is very strong stuff and a far cry from the co-operation of the Frost era or even pre-’66. Ontario’s position was not unique. Its views were not the sole property of a large, affluent province.

A brief excerpt from the Manitoba 1969 budget address will serve as an illustration of general provincial attitudes:

“Unhappily, this past year has been marked by deteriorating financial relations between the Provinces and the Federal Government . . . developments in the period since 1966 and in particular over the past year have made this goal (of an equitable distribution of taxes) seem less attainable than at any time in the past 30 years.

“Provincial initiative in the personal income tax fields has been blocked most effectively by the federal government’s 2 per cent Social Development Tax.

“In the past year alone, after little or no prior warning or consultation, the federal government has announced its with-

drawal from a long list of . . . undertakings.”

“Medicare . . . is the largest and most costly shared program ever initiated in Canada. Yet the federal government has stated that its participation in Medicare will end in 1973 . . . The list of similar programmes leaves no doubt that the Medicare plan will continue to escalate in cost . . . The Prime Minister’s recent assertion that ‘There will be no more Medicares’ offers little comfort in respect to the problems we now must carry.”

In his budget address Mr. Benson informed the House of Commons that the federal-provincial Tax Structure Committee had been re-activated. He also referred to the vigour “of the debates with the provinces” and concluded that he was “encouraged by the evidence of closer consultation and co-ordination in fiscal policy.”

In subsequent federal budgets there is little reference to the issues of tax sharing and shared-cost programs. The revenue is true of Ontario.

The 1970 budget address of the Honourable Charles MacNaughton continued his confrontation with the federal government based, particularly, on the federal government reaction to the 1970 report of the Tax Structure Committee:

“Notwithstanding the widespread recognition of the totally unsatisfactory distribution of revenue sources, I must report, with regret, that the recent tax structure committee exercise has left us no closer to resolution of the problem of federal-provincial fiscal imbalance . . . In recent weeks, we have asserted our fundamental disagreement with the federal approach to tax reform. We will continue to make proposals for a more acceptable tax system and to suggest means of achieving that goal”.

In the section of the address entitled “Federal/Provincial Fiscal Imbalance” Mr. MacNaughton made a number of points. He stated:

“In 1969, the Tax Structure Committee was reactivated to examine again the balance of fiscal responsibilities and resources of each level of government. Its 1970 report confirms the findings of the original 1966 study, which documented

the chronic underfinancing at the provincial/municipal level and the potential fiscal surpluses at the federal level.”

In the next paragraph he noted that “the federal government virtually ignored the 1966 findings and told the provinces ‘to go out and raise taxes’.” He concluded this section by stating “The failure to obtain a sensible resolution of federal/provincial tax sharing problems will inevitably limit the government’s ability to increase aid to municipalities and to maintain essential provincial services.”

The 1971 budget address delivered by the Honourable W. Darcy McKeough, who has a more abrasive personality than Mr. MacNaughton, was more assertive in tone. His opening remarks in his “Report on Confederation” were as follows:

“Over the past several years, two things have become clearly evident. First, the federal government is firmly bent on a course of greater centralization and concentration of power in its own hands. Second, Ontario has been singled out for a reduced role in the building of our nation.”

In the section of the budget statement “Federal/Provincial Fiscal Arrangements” Mr. McKeough reiterated that over the past number of years “Ontario and other provinces have repeatedly pointed out the fundamental fiscal imbalance in our Canadian federal system.”

This reference, like so many others, goes back to 1966, the year that co-operative federalism was replaced by confrontation federalism.

Ontario took the view that the only sensible solution to the problem was “to transfer tax resources to the provincial/municipal level where they are needed to finance existing and emerging public priorities.” This was not as abrupt a shift in provincial attitudes as it first appeared to be. In 1959 Premier Frost had first sounded a warning on shared-cost programs even though Ontario then felt that the existing shared-cost programs should be retained with relatively minor adjustments.

In the 1965 budget the Provincial Treasurer was cautious about the implications of contracting out:



“The recent decision to allow provinces to contract out of joint programs on a trial basis raises questions as to the future role of shared-cost programs in our federal system of government. These programs have had a unifying effect and have been highly successful in securing common standards of services throughout Canada. There may be programs that could be replaced by equivalent tax abatements in the individual income tax field, but before adopting such a change as a permanent part of our arrangements we should be confident that it would be in the best interests of our Province and Nation.”

Gradually the Ontario attitude towards shared-cost programs became less charitable. The Economic and Fiscal Subcommittee of the Ontario Advisory Committee on Confederation reported on April 24, 1966. Their view of shared-cost programs was that such programs “have made and are making a valuable contribution towards establishing more uniform standards in important economic and social services.” On the negative side they saw that shared-cost programs had the clear disadvantage of undermining provincial fiscal autonomy and establishing conditions which tended to be too rigid and restricted. Nevertheless, they were concerned at that time because the alternative to shared-cost programs was opting out. But the frustrations of the late '60's gradually made Ontario see opting out as the only alternative.

Thus Mr. McKeough's views, while they were the first formal statement of the desire to opt out, were part of a general drift. Mr. McKeough stated:

“The existence of major shared-cost programs demonstrates the major contradiction in our system—the federal government has the money while the provinces have the responsibilities.”

He commented that the new formulas in health insurance and post secondary education were common in that they reduced the future federal commitment and established shared-cost programs. This led Mr. McKeough to conclude:

“I wish to state now our clear intention to assume complete



responsibility for the established shared-cost program\* in exchange for fiscal equivalence and to resist rigorously the establishment of new shared-cost programs. In the long run this solution will serve all governments better, will eliminate complex bureaucratic procedures and leave each level of government the full responsibility to plan and finance its own program within its own framework of priorities.”

Mr. McKeough then reviewed the constitutional negotiations which had been proceeding since 1968. He stated:

“At the heart of the problem . . . lies the financial impasse between the federal government and the provinces. Until there is substantial progress in tax sharing and unless the provinces achieve better financial arrangements with the federal government, I can see major obstacles in the way of any substantial advance in the other aspects of the constitutional review. Without this real reform of intergovernmental finance, the other legal and jurisdictional improvements will be largely illusory contributing little to the real capacity of governments in Canada to solve the day to day problems of our citizens.”

In spite of the hostile tone of Mr. McKeough's remarks he still had to sit down and talk with his federal counterparts since there were three major Federal-Provincial Conferences in 1971.<sup>+</sup> These conferences dealt with revisions to the tax collection agreements, post secondary education assistance, and equalization and stabilization programs. These discussion resulted basically in an extension of the 1967-72 system to the period 1972-77. However, there were some changes. For one thing the equalization formula was broadened to take into account three more provincial revenue sources.

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\* The antipathy towards shared cost programs is not universal throughout provincial governments. While treasurers don't like them, the program departments which benefit from them, e.g., health, generally do like them because it reduces the competition for limited dollars at Treasury Board. While the Treasurer wants tax points the Minister of Health would probably be satisfied with a revised formula. Therefore, the argument on shared-cost programs is a major intra-governmental issue as well as a major intergovernmental issue. A decade ago in Ontario line departments would deal directly with the Premier rather than with the Premier and Treasury as they do now.

<sup>+</sup> Another major happening that year was the introduction in June of Bill C-259 re tax reform. These proposals had significant implications for all provincial governments.

Another change which affected Ontario directly was the additional flexibility provided for the provinces under the tax collection agreements. As a result of this change Ontario was now able to provide an individual income tax credit (through the federal tax collection machinery) for real property taxes.

Either all the Conferences in 1971 had an emollient effect or some other factor did because, whatever the cause, the tone of Mr. McKeough's 1972 budget address was much more conciliatory than his previous one\*. After listing Ontario's grievances, Mr. McKeough stated:

“Since that time I am gratified to say the situation has improved considerably.”

### **Federal-Ontario Arrangements**

After discussing Tax Reform, Mr. McKeough turned to federal-provincial arrangements and the three component parts, that is tax sharing, cost sharing and equalization. On tax sharing he hit hard at the need to relate to access to revenues to expenditure responsibilities. He pounded this point home.

On cost sharing he stated:

“The Ontario Government is convinced of the need to assume full responsibility for the established shared-cost programs in exchange for fiscal equivalence.”

The Ontario Government's position is summed up:

“in the basic principle of public finance that the government responsible for spending should also be responsible for raising the necessary revenues.”

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\* Two factors may have contributed: John Turner had become the federal Minister of Finance, and the 1971 election was behind Ontario.

Turning to equalization he adopted a more statesmanlike (if condescending) attitude than the previous year. He reiterated the firm position of the Ontario Government by saying:

“We agree fully with the continuation and expansion of equalization payments to provinces having inadequate fiscal base. We support continued efforts to improve the equalization formula in order to make it as consistent and fair as possible.”

In October, 1972 the government of Pierre Elliott Trudeau was reduced from a majority position to a minority position. This served to have a marked impact on intergovernmental relations. Whereas earlier throne speeches contained few references to the topic of federal-provincial relations, the 1973 throne speech contained not less than fourteen references. And these references were diverse covering such topics as social security programs, housing and urban development and western expansion.

In the 1973 budget address there was also discussion of “the obvious need for co-ordination in fiscal policy between the federal and provincial levels of government”. Mr. Turner went on to urge the provincial governments, “the largest provinces in particular,” to deficit finance in order to keep the economy rolling.

Contrasting with previous years there was little reference to federal-provincial relations in the 1973 Ontario budget. The sole reference in the main body of the budget was rejection of Mr. Turner’s suggestion in the simple phrase “there is no way that Ontario can continue to carry an undue share of deficit financing”.

But the impact of the years of near acrimonious debate was felt in the revenue measures taken by the Ontario government. Amongst other things, the government chose to increase the sales tax from 5% to 7% and it tried to introduce an energy tax. These unpopular tax measures led one observer to comment that Ontario must be bold and set up its own personal income tax system if it was not to be “perpetually vulnerable to the federal fiscal steamroller”.

This leads to the 1973 Federal-Provincial Conferences which discussed the financing of social security, Medicare, hospitalization and post secondary education.



In April the federal and provincial governments met and had reached general agreement on a number of major new social security proposals. For a few brief weeks it appeared that the era of co-operative federalism had returned. But that impression was short lived. In early May the ministers of finance, health and education met to discuss future financing requirements for national health care and higher education programs. The meeting quickly broke up in disagreement.

In the latter part of May the first ministers met to discuss the same topics. The federal government proposed the substitution of per capita grants, increasing in proportion to the GNP, for health and tied to the 18-24 age group in the case of education, for the current sharing arrangements. The federal government's concern was that it was locked into escalating programs over which it had no cost control. In the case of the health grants, the proposal was a first step (the Lalonde step). There was a second step (the Turner step) which would see the federal government withdraw entirely from the health field beginning in 1975. As a consequence of their withdrawal they would turn over revenue from alcohol and tobacco taxes and six points of the personal income tax.

Ontario and Quebec offered a counter proposal which was supported by three other provinces, Alberta, Manitoba and Newfoundland and opposed by the other five. Under the Ontario-Quebec proposals the federal government would withdraw from the three major shared-cost areas. They would also withdraw from 28 points of the personal income tax, equalized to the level of Ontario\*.

The meeting concluded with Ottawa's ideas being received coolly. However, the Ontario-Quebec proposals were received even less enthusiastically. Premier Davis summed up his reaction to the Conference by saying: "I register neither disappointment nor wild enthusiasm."

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\* "In what would become a classic ploy for Ontario leaders, he (Mowat) agreed to throw his weight behind their demands (for more money) despite his reservations, in return for the backing of the other provinces in his demand for greater provincial autonomy." p.104. "Oliver Mowat's Ontario" edited by Donald Swainson, *The Mowat Heritage in Federal-Provincial Relations* by Christopher Armstrong.



It is interesting that Premier David did see some hope for the future. His interpretation of the events was that Ottawa and Ontario were not that far apart and their differences related to money not principle. The Premier had some grounds for mild optimism. A leading editorial of *The Globe and Mail* noted that "Medicare has been the classic example of how a strong central government can exert control." It went on to note that "there is a strong movement towards decentralization."

Then it stated that "What we should be concerned with is . . . the practical business of seeking the most responsive way of delivering services to people."

The weight of evidence is that the provincial governments and their municipalities are the best vehicles for "delivering services to people". There is also clear evidence that the federal government has an excess of revenues relative to its responsibilities. Twenty years ago under comparable circumstances federal government assumed responsibility for the old age assistance program.

Today the federal government finds this solution closed because of the government of Quebec. If that option is closed the government of Ontario is faced with the situation whereby it must have more tax room. Yet if federal policy initiated in 1966 continues, Ontario appears destined to a future of higher taxes, higher debts, and drastically reduced services or a combination of all three.

### **The Bureaucracy and the Politicians**

An analysis of the post '66 period would not be complete without reference to "the brainy team of economists at Queen's Park" and to the personalities of Prime Minister Trudeau and Premier Davis.

Subsequent to the build-up of expertise in Queen's Park the government of Ontario was in a position not only to respond to the initiatives of the governments of Canada and of Quebec but also to put forward its own alternative positions. In many ways this is a consequence of the Quebec Conference of 1964 where Premier Robarts saw the expertise that Premier Jean Lesage had gathered around him in that province.

With the growth of this expertise at Queen's Park the old

atmosphere of a federal-provincial “club” disappeared. It has been replaced by an adversary relationship which has assumed sufficient proportions to attract newspaper attention. A Toronto Star writer reported that unidentified federal people believed “they could take Ontario apart if they wanted”. This may be believed in Ottawa but it is doubtful if it would be believed elsewhere. In any event, Ontario now has considerable expertise and this has served Ontario well in the recent past. There is danger in the future, however, because the bureaucracy does not have the same ability as the politicians to respond quickly to changed circumstances.

At the political level there were obviously changes in both Ottawa and Toronto with the shifts from Pearson to Trudeau and from Robarts to Davis. These shifts can be exaggerated. While it is true that Trudeau is regarded as a less flexible person than was Pearson, the fact is that he only reinforced confrontation federalism because it had been initiated two years before he became Prime Minister.

In Ontario it is true that Davis is more political in his approach to the federal field than Robarts ever was. Nevertheless, it would be wrong to interpret this as the cause of the current federal-Ontario impasse as some people in Ottawa tend to do. While it is true that differences with Ottawa increased when Davis became Premier and McKeough Treasurer, it was a matter of degree and not a shift in direction.

What happened was that in 1966 the federal government’s credibility came into question with Ontario politicians and civil servants. In the subsequent years there has been little change.



# Interprovincial Relations

### Introduction

The special relations between the provinces of Ontario and Quebec predate Confederation to the days of Upper and Lower Canada. These were the provinces that were the prime movers in the creation of Confederation. Geographical proximity and size have contributed historical factors to make the special relationship even more pronounced in recent years.

In addition, other factors such as personality must be considered. John Robarts obviously saw as one of his missions the necessity of playing a key role between Ottawa and Quebec. His successor is continuing the role.

Much of this relationship relates to constitutional matters and therefore the description of relations with Québec is inter-related with discussions of the Constitution.

This story, i.e., the relationship of Ontario and Quebec, makes up the major part of this chapter. However, there are other



matters of interprovincial relations that deserve attention. These range from interprovincial relations between the provinces of Ontario and Alberta to more general matters such as the Premiers' Conferences and the growing number of interprovincial conferences on matters such as education, health, etc.

It should be noted that while in the area of federal-provincial relations there is a wealth of material, in the area of interprovincial relations there is a dearth of material. Reliance must be almost entirely on press clippings rather than official records. While there has been a fair amount written in the media about relations between Quebec and Ontario, there has been relatively little about other aspects of inter-provincial relations.

## Quebec

An earlier chapter has recorded the election of Jean Lesage as Premier of Quebec and the background leading up to the dramatic and traumatic Federal-Provincial Conference in Quebec City in April, 1964.

At that Conference Quebec took a strong position when it demanded the right to contract out of a number of programs and specifically out of the Canada Pension Plan. The Quebec attitude upset other Premiers and Quebec stood alone. To some Confederation seemed endangered.

As described earlier, two consequences flowed from that meeting. John Robarts realized that in future it was important that Quebec should not be allowed to be isolated. He worked hard to understand the Quebec position in order to try to keep Quebec in Confederation. Secondly, Robarts became convinced of the need to develop a proficient advisory staff. Subsequently the senior Ontario officials made a point of getting to know their Quebec counterparts. While contact has not always been consistent, there has been a growing network of inter-connecting official links between the two governments.

An important fact to recognize in this interprovincial entente was that it served the two provincial governments well despite their somewhat different orientation. Ontario's concern was fiscal rather than constitutional. Robart's role was to assist Quebec's efforts to bring about constitutional change if it would help keep Canada together. It was not Robarts' position that constitutional change per se was necessary.

## The Confederation of Tomorrow Conference

In 1966 Jean Lesage and his *la politique de grandeur* met defeat at the hands of Daniel Johnson's Union Nationale. Johnson was under pressure in Quebec to enlarge on its autonomous role. These were volatile times in Quebec and it should be remembered that it was only a year after Johnson became Premier that President de Gaulle made his famous "Vive le Quebec Libre" address.

In assuming power Johnson reactivated the legislative committee on the constitution and restated its "two-nation" philosophy in the speech from the throne. Other provincial governments were cool to the idea of a major reform project in this area and Ottawa was reluctant to bring obvious major differences into the open. However, following the unsatisfactory outcome of the fiscal negotiations in the fall of 1966 and sensing Johnson's increasingly isolated position, Premier Robarts determined to take the initiative, demonstrating both Ontario's increasing competence in intergovernmental affairs and his own capability as a national statesman. In the throne speech in January, 1967 the Confederation of Tomorrow Conference was announced and scheduled to be held in Toronto in November.

Federal reaction to the proposed conference was strong. Ottawa feared that the Conference would mostly provide another opportunity for demands and ultimatums from Quebec. Even the Ontario men were sceptical of their own endeavours, acknowledging the possibility of significant conflict, a polarization of views between Quebec and the western provinces, and a perception that the provinces (particularly Ontario and Quebec) were trying to out-manoeuvre the federal government. Nevertheless, Ontario felt that the problems had to be discussed, taking care to reduce the potential for confrontation. It was clear that no decisions would be expected merely from an exchange of views.

Sensing the delicacy of his host's position, Johnson made a firm but moderately stated case, reiterating Quebec's goals and referring to all the provinces' interest in bringing the constitution into line with current conditions. With a calm and reasonable tone having been set, other provincial premiers expressed their views. The fact that there was little agreement



on the need for constitutional reform mattered less than the fact that discussions were being held without confrontation.

The Conference showed that the participants could approach the negotiating table. This was a personal triumph for Robarts, consolidating his stature as a leader among premiers. He demonstrated to Quebecers that their needs were not being totally ignored by English Canada. Other provinces had been able to add to Quebec's focus on French/English issues their concerns about regional economic disparities, taxing powers and other economic issues which were to arise again at later constitutional conferences.

The message to Ottawa was clear. There was sympathy for Quebec's position. If the federal government did not take the initiative the provinces, led by Ontario, would continue to talk among themselves and Ottawa might be put in a defensive position if any concrete proposals emerged. A strong sense of dissatisfaction with Mitchell Sharp's implicit constitutional position on tax and fiscal arrangements was clearly evident. As a consequence the federal government began preparing itself for a full scale conference, even before the meeting in Toronto. Responsibility was given to the recently appointed Justice Minister, Pierre Trudeau, for the preparation of the federal position.

For Ontario the Confederation of Tomorrow Conference was a gamble that had paid off. The province gained stature, not only in demonstrating its administrative expertise in the whole manner in which the Conference was staged, but also in the role that Robarts assumed as a mediator among the factions within the nation. There is evidence that from a Quebec point of view Ontario's attitude generally, and Mr Roberts' in particular, may well have kept Johnson in Confederation.

### **The Constitution 1968-1971**

The amiable mood of the Toronto Conference was followed by the open-forum Federal-Provincial Constitutional Conference at Ottawa in front of television cameras (a first for any federal-provincial conference.) Making his final appearance at a Federal-Provincial Conference Lester Pearson was in the chair and, in customary fashion, was determined to ensure that the atmosphere of conciliation would prevail. At his side, as chief



proponent of the federal position, sat Pierre Trudeau, a strong contender in the imminent Liberal leadership race and firm French-Canadian contestant of Daniel Johnson's philosophy for Quebec.

Ignoring the focus of the Toronto Conference and hoping to defuse any attempt to rush basic decisions, the federal policy statement "Federation for the Future" set the priorities for discussions: Rights of individuals, institutional reform (the Senate and Supreme Court), basic goals of federation, and only then, the distribution of powers. The dissatisfaction of the provincial leaders with this approach became obvious. Johnson's statement at the outset came straight to the question of power, and even Robarts, during the course of the discussion, placed more emphasis on fiscal matters. To the Ottawa proposal for an entrenched Bill of Rights, Ontario and Quebec as well as other provinces were opposed. There was greater consensus on the question of French language rights. On this question the bond between Ontario and Quebec was further strengthened by Robarts' declaration promising to create bilingual services. This was warmly welcomed by Daniel Johnson.

Little else was achieved at this initial Conference, beyond a general agreement to continue the review and to establish a working conference of first ministers, assisted by a continuing committee of senior officials and a secretariat. The highlight of the sessions was a fierce dispute between Trudeau and Johnson over the ever-present but usually avoided issue of special powers for Quebec.

The working committee of officials continued deliberations at several meetings between May and December, 1968. In an attempt to define some community of interest, all the governments were asked to make submissions. Though all eventually submitted documents, by the end of the year only Ottawa, Ontario, Quebec and New Brunswick the participants really interested in the undertaking, had documented their positions and the meetings did not result in any further consensus.

The second Constitutional Conference met in February, 1969 under the influence of the federal government. The emphasis of intergovernmental relations had now shifted from fiscal to constitutional matters. The memories of the previous year had put the provinces into a dissatisfied mood. Led by Robarts,

however, they ensured that the more fundamental issues of taxing and spending powers were put on the agenda. Recognizing that there was a lack of progress, the governments did agree that the next session would be held in private and that basic working papers would be prepared on each issue.

The closed format “working session” convened in June of the same year to discuss the federal papers “Taxing Powers and the Constitution of Canada” and “Federal-Provincial Grants and Spending Power of Parliament”. The former varied little from earlier federal positions, being concerned with how joint tax fields should be shared, not with constitutional rights in different fields. However, the federal government did make a conciliatory gesture to the provinces, offering to limit severely Ottawa’s potential for shared-cost programs. The proposals included some conditions almost certain to be unpalatable (i.e., the repayment of funds to individuals other than to the provincial government). Although Ontario had brought a position paper to the Conference calling for a dramatic increase in the province’s share of the income tax field, the federal proposals came nowhere close to that share. Nevertheless, Mr. Robarts expressed satisfaction with the apparent concessions that were offered since they at least approached the province’s demands of earlier years.

The third full open Conference met in December, 1969, and marked a peak of frustration with the whole review process. With an eye on his forthcoming election, Jean-Jacques Bertrand, Daniel Johnson’s successor, found himself caught between the strong views of the two opposition parties. He was still anxious to focus on the basic elements of the constitution. However, Ontario and the western provinces found the constitutional talks impeding any progress on fiscal and economic matters. To make matters worse the federal document on the subject of social welfare, “Income Security and Social Services”, found no support from any of the provinces. It directly opposed Quebec’s demands to transfer responsibility for social programs. It was rejected by Mr. Robarts as being yet another example of centralization by Ottawa. It was as if the agreement attained six months previously had been repudiated. Even on a “non-political” issue such as basic individual rights concurrence could not be attained.



Because of the apparent frustrations non-constitutional Federal-Provincial Conferences were scheduled for the early part of 1970 and a breathing space was allowed. In any event no fruitful discussions on the constitution could be held until the outcome of Quebec's April election was known, for a change of government in either direction, to the fiercely independent Parti Quebecois or the more federally inclined Liberals, would have significant implications for Quebec's position. An intermission resulted, a pause between acts while participants dealt with other matters and waited to determine just who would be involved in the next interchange.

The Quebec election resulted in a substantial victory of the Quebec Liberals led by Robert Bourassa, ably assisted by the federal Liberal party. An immediate rapport was established between Bourassa, his advisers and their Liberal counterparts in Ottawa, with an apparent cooling of relations between Quebec and Ontario. Bourassa had already declared the primary interest of his government to be in pragmatic economic matters—rather than theoretical constitutional debate—and he was therefore prepared to be flexible, while Trudeau in his opening statement to the closed-door working session of September, 1970 declared that the time was now ripe for conclusive action.

During the discussions several factors emerged: First, the patriation of the constitution re-surfaced as a major objective and prerequisite for continuing constitutional overhaul; second, an earlier suggestion of Robarts', that negotiation be permitted between Ottawa and individual provincial governments to resolve specific problem points was accepted; third, Robarts appeared no longer prepared to go along with Quebec. Consequently a definite cooling was sensed between the two major provinces.

Additionally, a new momentum had been given to the talks by the FLQ October crisis which evidenced the nationalistic mood of a significant proportion of Quebecers. Another working session was held in February, 1971 and there was an interesting shift in roles. Now it was Robarts, the instigator of the reform process and senior statesman among the participants, who was making his final appearance at a Federal-Provincial Conference, while Bourassa appeared as the eager young man, with Trudeau the mediator. Correspondingly, the whole focus of attention



was on the Ottawa/Quebec relationship, with Ontario having little significant part to play.

### The Victoria Conference

The Conference convened in June of 1971. The purpose of the Conference was to bring the Constitution home. Key to this was agreement on the amending formula. The Ontario delegation, led for the first time by Premier Davis, wanted agreement on the amending formula so that progress would be made on the more important task (from Ontario's viewpoint) of realigning responsibilities and revenues.

Such was not to be the case. As the Conference got underway it was evident that basic disagreement over social welfare was still precluding any resolution. Quebec refused to sacrifice its aims merely for the sake of gaining agreement. Trudeau, who had come to the talks promising flexibility, could only go so far, possibly because of rumors of resignation among members of his own cabinet if he "gave away" too much. Premier Davis attempted to play a mediatory role but the negotiations had proceeded beyond the point where statesmanlike actions could smooth over differences.

The three days of intense discussions, in which Quebec explained its position and sought support, culminated not in the planned televised public session where the new charter would be presented, but in a marathon closed-door thirteen-hour attempt to put something together. Almost in desperation the Victoria Charter emerged. Satisfactory to virtually no one, it represented not the highest common factor of the interests, but the lowest common denominator, conceding family allowances to Quebec but returning old age pensions to Ottawa and refusing any constitutional guarantee of federal funds for Quebec's social welfare programs.

In an attempt to prevent the Charter from sliding into oblivion as had the Fulton-Favreau Formula some six years previously, the federal government insisted on a time clause for its acceptance by all the governments. If it was to take effect it had to be endorsed within eleven days of the end of the Conference. After only three days Bourassa phoned his refusal to Trudeau, and the acceptance already indicated by Ontario, Alberta and British Columbia and the subsequent concurrence by the other

provinces became irrelevant.

The finale was fruitless and disappointing. Four years of talks involving seven first ministers' meetings, nine ministerial committee meetings, fourteen continuing committee of officials meetings, fifteen official subcommittee meetings and an unrecorded number of informal discussions at all levels had failed to produce a single step forward on any constitutional reform. Not even the patriation of the Canadian Constitution had been achieved.

Not only had the constitutional reform not been achieved, but the substantive problems of the late 1960's, taxing and fiscal power and shared cost programs, were still unresolved. Any attempt to resolve them within the context of the Constitution had been lost within the more significant split over perspectives on Confederation. Thus provinces such as Ontario, which were not so much interested in constitutional reform per se but only in regard to its implications for the practical governmental problems of the day, also lost out because these problems were pushed to the side of the stage while the more fundamental issues were discussed.

Ontario's role in the whole process very much reflected this position. Robarts may well have seen the process of constitutional reform primarily as being designed to acknowledge Quebec's difficulties, but there was, secondarily, the possibility that some benefit might come in relation to the province's perspective on the Tax Structure Committee issues and shared-cost programs such as Medicare. Having initiated the process for the primary reason, Ontario, while still preserving the role of mediator where necessary, could and did bring up these issues when the opportunity arose. It is interesting to note too that although Mr. Robarts initiated the Confederation for Tomorrow Conference to help keep Quebec in Confederation, by the time of the Victoria Conference relations between the two provinces were more tenuous than they had been in a number of years.

## Post-Victoria

Premier Robart Bourassa has shown definite signs of trying to restore interprovincial relations after the strains of the Victoria Constitutional Conference in 1971. He stated that the federal government should give more money to the provinces and spend



less money itself. He sees fiscal power as the real problem in federal-provincial relations since programs where Ottawa shares the costs with the provinces commit the provinces to programs which are not always high on their own list of priorities. This position is not at all dissimilar to that of Ontario's.

At the official level links which became weaker when Bourassa first came to power are being restored. It is difficult to be precise on such matters because they are not public. However, one senior Quebec official recently estimated that contacts between the two provinces were nearly on a daily basis and almost as frequent as between Quebec and Ottawa.

What the future holds is difficult to say; there is now again, as there has been in the past, a special relationship between the two central provinces. Clear evidence of this was Premier Davis' visit to Premier Bourassa shortly after the federal election. Moreover, under Bourassa Quebec has been meeting jointly with the other "eastern provinces" who share the problems of poverty and offshore mineral development. In fact there is some evidence to suggest that while Ontario has concentrated its efforts on maintaining close ties with Quebec, Quebec has been attempting to broaden its contacts with other provinces.

## Alberta

While Ontario has had a history of "special relationship" with Quebec, its "special relationship" with Alberta is of much more recent vintage. It has been precipitated because Alberta and Ontario are like reverse mirrors in terms of their outlook on energy, Alberta being the great producing province and Ontario, the great consuming province. The "energy crisis" has resulted in a series of visits of Premier Davis and/or the Premier's Parliamentary Assistant, Darcy McKeough, to Alberta and of Premier Lougheed and/or Don Getty, Minister of Interprovincial Affairs, to Ontario.

The Government of Ontario not only recognized that the federal government and the provinces must work out energy policy together but it has cried out for federal leadership and initiative. The January 1974 federal-provincial conference on energy has provided a forum for review and search for agreement in this field.



## Interprovincial Conferences

In recent years, a little noticed phenomenon in Canadian inter-governmental relations has been the getting together of the various provincial governments, either formally or informally, to discuss a variety of specific or general topics without a federal presence. Publicity does not seem to be encouraged, nor is there a great deal of interest in this area by academic or press circles. Yet the provinces together now control the expenditure of more funds than does the federal authority.

A case in point would be the first joint conference of finance and education ministers which was held in November of 1972 in Quebec. The purpose of the meeting was to discuss the future federal role in the financing of post secondary education. One would have to review the back newspapers to find any record that such an historic conference had taken place.

There is, of course, one interprovincial gathering that does attract attention, the annual Premiers' Conference. These Conferences were revived on the initiative of Jean Lesage in 1960.\* A significant difference from earlier conferences was that they were to be annual affairs. The conferences were welcomed with greater or lesser degrees of enthusiasm by the Premiers except for Joey Smallwood of Newfoundland who refused to attend.

Some people dismiss these interprovincial Premiers' Conferences as simply social events. However, an analysis of the meetings indicates that a number of substantive matters arise. The Premiers are aware that the public might feel they provide an occasion to gang up on the federal government. Therefore, prior to the Medicare crisis in 1966, they kept a reason-

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\* The first conference, in 1887, was also initiated by a Quebec Premier, Honoré Mercier. At that first conference four Premiers had very specific concerns about the federal authority. Mercier, a Quebec Liberal, did not like the Conservative "hangmen" in Ottawa who had executed Louis Riel. Oliver Mowat, the Liberal Premier of Ontario, who probably agreed more with Macdonald than with Mercier on Riel, did not like Ottawa's frequent disallowance of his legislation. Fielding, the Liberal Premier of Nova Scotia, had been elected on a platform of secession. Norquay, the Conservative Premier of Manitoba, objected to the monopoly privileges of the CPR. Subsequent Conferences were held in 1902, 1920, 1912 and 1926.

ably low profile. This low profile was cast aside at the 1966-68 Conference where they spent a great deal of time fighting Medicare. In doing so they proved that there was no interprovincial mechanism which could stop a determined federal initiative.

Tax revenues were also discussed at the 1968 Conference. It was agreed unanimously by the Premiers that the federal government should give the provinces a greater share of income tax revenue. The Premiers sent the Prime Minister a telegram urging Ottawa to decide by the end of 1969 the extent of any increases in the provincial share of income tax revenues. This appeal was in essence based upon the unanimous endorsement of a written demand made to the Prime Minister three weeks earlier by the Prairie Economic Council for a federal-provincial economic conference before any changes in the tax-sharing arrangements were made.

With regard to the Premiers' Conferences, Mr. Robarts has stated that in the late '60's as a result of the "growing sophistication" of federal-provincial relations, the Premiers were freed from taking a joint stand on matters relating to Ottawa and there was no longer a fear of the provinces ganging up on Ottawa. He has also indicated that there was discussion of whether the Premiers' Conferences should be scrapped. It was felt they were worth retaining but that they should focus on a limited number of topics. Hence the Conferences of 1970, 1971 and 1972 concentrated more on matters such as pollution and off-shore mineral rights.

At the Halifax Conference in 1972, motions were adopted for the first time and published. The question of the financing of post secondary educations, which resulted in the November meeting of Ministers of Finance and Education referred to above, emanated from this Conference. Gradually these Conferences had taken on more meaning.

There are other examples of interprovincial forums. One of the most formalized is the Council of Ministers of Education which held its first meetings in 1960, the same year when the reconstituted Premiers' Conferences commenced. One of the purposes of the Council was to ensure that if there is a national problem in education there is a mechanism to deal with it. In the early years the Council was basically a standing committee of the Canadian Education Association.



In time it was agreed that Council should formalize its operation and hire its own staff. This was done in 1967 when the Honourable William Davis of Ontario was Chairman. The Council now has a permanent Secretary General with a head office in Toronto and a budget of approximately half a million dollars. While the staff plays an essentially passive role as a secretariat, it does perform a useful co-ordinating function. Not only does the council deal with interprovincial matters, it also sometimes deals with Ottawa, through the Secretary of State on matters such as post secondary education, through Manpower on technical matters and with the CRTC and the Department of Transport on broadcasting.

In the health area, the Ministers have been meeting annually, without the federal presence, since the mid '60's. One of the motivations for the meetings was a feeling that the federal government rigged the federal-provincial agendas. As a result, at their meeting in Regina in 1972 the Health Ministers decided to set up a permanent secretariat. This reflects a feeling that in the health area the provinces must act jointly in dealing with the federal government.

In the welfare area there has been a recent move by some provinces to set up an interprovincial conference. One was held last fall in Victoria largely as a result of the efforts of New Brunswick. Ontario's current position is opposition to such Conferences without the federal authority present.

In the communication area the first interprovincial conference of ministers was held in Quebec City in November of 1972. A subsequent conference was held in Calgary, May 31st and June 1st, 1973. These conferences have dealt with the issues of cable television and the interconnection of customer owned and maintained equipment to the telephone networks. Over and above participating in these Conferences, Ontario has established an Ontario-Quebec Communications Committee.

This list of interprovincial conferences is not exhaustive, nor is it meant to be. It is simply illustrative of an important but little noted trend in Canadian Confederation. The provinces are meeting together in order to try to resolve conflict or agree upon common approaches. While this may be natural in an exclusively provincial area, such as education, it is less natural in



areas such as health and communications. One of the reasons for these conferences seems to be general provincial dissatisfaction with federal attitudes. They are one more manifestation of confrontation federalism.

# The Future

From the record it appears that the Canadian Confederation is impaled on the horns of a dilemma. On the one hand, Ottawa has revenues disproportionate to its responsibilities and on the other hand, the provincial governments are faced with responsibilities disproportionate to their revenue base.

A simple resolution of the dilemma would appear to be to assign more responsibilities to Ottawa. But this is not possible for a number of reasons. The most important reason is that the government of Quebec does not wish to lose any social programs and they are the programs that are costly. Much of the postwar era has been characterized by the struggle of Quebec for pre-eminence in the social policy areas, first quietly under Duplessis and since Lesage, more loudly.

The government of Quebec has been joined in this struggle by the government of Ontario. Indeed in more recent years Ontario has sometimes taken initiatives rather than Quebec. However, while their ends may be the same, the two provincial governments have distinct concerns.

Ontario, becoming increasingly assertive, is returning in a sense,

to the historical position of Oliver Mowat with his compact theory of Confederation. It is useful to refer to Mowat in order to realize that an Ontario-Ottawa confrontation is as old as Confederation itself. At the same time, it would be a mistake to view the current stand off as simply an inevitable historical re-occurrence. As was noted earlier a gap was created between the federal government and the Ontario government (indeed all provincial governments) in 1966 which has not been bridged. The federal government does not even admit that such a gap exists. It was caused partially by the false expectations created by Prime Minister Pearson's co-operative federalism approach. And there was a sense of relief after the shock of the Quebec City Conference in the Spring of 1964.

At that Conference the Federal-Provincial Tax Structure Committee was created. The Committee which was to prepare detailed projections of revenues and expenditures by level of government reported in September, 1966.

The report showed that the federal government would be in a surplus position while the provinces and their municipalities would be faced with large deficits. Rather than coming forward with proposals to alleviate the situation, the federal government threw down a gauntlet. Mr. Sharp stated:

“The conclusion seems clear: The problem is not lack of access to revenue sources, but rather the difficulties the Provinces face—in company with the Federal Government—in raising taxes that are already high.”

To others, a very different conclusion “seems clear” from reading the Report of the Tax Structure Committee.

This immediate federal response plus subsequent actions has created a credibility gap between the federal government and the Ontario government. But that was not the only error in 1966.

Another major error was the announcement by the federal government of its intention to introduce Medicare. Probably no provincial government opposed medicare but most provincial governments did oppose the universality aspect and the timing of its introduction. At a time when provincial governments were struggling to find money for education they could not see the



point of introducing a new and costly program. Ontario was one of the leading critics of this federal initiative.

Subsequent events have done little to reconcile the governments of Canada and Ontario. Federal announcements and programs, the withdrawal from shared-cost programs, the social development tax and tax reform, all seem designed to irritate rather than soothe. And changes in personalities of some of the federal figures in 1968 did not help. Not only was there the shift from the conciliatory Mr. Pearson to Mr. Trudeau there was also a shift at Finance from Mr. Sharp to Mr. Benson who in November of that year told the provinces to increase taxes if they needed money.

All of these issues have been complicated and irritated by certain organizational factors. Ever since 1964 the Ontario government has been creating a bright, young, aggressive bureaucracy able to put forward the provinces' case.

What will be the future of relations between the two largest governments in Canada? If there is to be reconciliation not only between the federal government and the government of Ontario but also between the federal government and all provincial governments there must be a clearer recognition that the events of 1966 have contributed to the current situation. Only when the federal government recognizes the fact (even if it is only privately) can real progress start to be made.

The essential first step is the easiest to prescribe. The second step, relating to reallocation of responsibilities or revenues or both is much more difficult. First what are the possibilities of re-allocating responsibilities? Any suggestions along these lines will involve shifting social programs such as post secondary education, Medicare, hospitalization, or even public school education from the provincial sphere to the federal sphere.

It has happened in the past with such programs as unemployment insurance and more recently old age allowances. However, any step in that direction at present appears to depend critically upon the attitude of the government of Quebec.

In the field of post secondary education not only do many families cross provincial boundaries but also students show far less respect for those provincial boundaries than do provincial

governments. Over twenty years ago the Massey Royal Commission recognized a need for federal government involvement in post secondary education and convinced the government of that need. Today, the federal government provides over \$1 billion per annum in assistance to post secondary education through tax abatements. Perhaps it is time that the federal government assumed the entire cost of post secondary education, which would relieve the provinces of over \$1.5 billion of expenditure responsibilities.

One Provincial Premier has said:

“if the Federal Government feels so strongly about medicare . . . and if the Federal Government considers medicare a national priority, then it should really take over completely.”

Another social policy that could become a federal responsibility is public school education. One reason that this would be popular among many Canadians, if not their provincial governments, is mentioned above, the high degree of interprovincial migration. On the fiscal side, it would automatically remove a large expenditure item from the most regressive tax source, real property, and place it somewhere in the generally progressive federal tax system. Six years ago, then Premier Robichaud of New Brunswick said that Ontario, Quebec and New Brunswick could make school texts uniform. By contrast, some provincial governments have delayed the bilingual school aid program. If the program had been national this would not have happened.

Yet no matter how plausible these arguments are, they remain theoretical as long as they are not acceptable to Quebec. Perhaps the time has come for a daring bold initiative on the part of the federal authority. A great deal of explanation of fiscal reasons for such a move would be required, especially in the Province of Quebec.

If responsibilities cannot be shifted from the provincial level to the federal level there remains the question whether revenues can be shifted from the federal level to the provincial level? Such possibilities exist as is evident from the May, 1973 proposals relating to the financing of hospitalization and Medicare.



The government of Ontario (and the governments of Quebec, Alberta, Manitoba and Newfoundland) believes that there are revenues (and responsibilities) that can be shifted. This is evident from the government of Ontario's support for Quebec's proposition that the federal government withdraw from 28 points of personal income tax and provide equalization to the level of Ontario on each point. Yet there could be dangers in the federal government withdrawing too much in the personal income tax field. There would be dangers from both within and without.

It has been said that a federal state is created by external factors. In Canada's case this factor was particularly evident in World War II. Given the current rapidly changing state in world affairs, it could again become a factor. This may not be a good time to have a weakened central authority which has little ability to deal with important external matters, especially those of commercial and economic importance.

Turning from external factors to internal factors, the personal income tax is the most important tax for maintaining equity among the various parts of Canada. Concern on this issue was shown at the May, 1973 Conference as the provinces split 5-5 on the Ontario-Quebec proposals.

Having commented on the need for a strong federal presence, both externally and internally, is it really known what percentage of the income tax the federal government requires to do its job? Is it three quarters, or is it one half, or is it even as low as one quarter? Could the provinces transfer the general sales tax and motor fuel revenues to the federal government in return for a guarantee of half the personal income tax revenues with no re-allocation of functions? Such a proposal might have the advantage of giving both the federal and provincial governments equal access to the tax source with the greatest elasticity.

While some such revenue shift may not occur, even so there would be dangers. One danger is that the federal government will invent ways and means of spending the surplus monies it will have rather than pass them on to the taxpayer.

Another possibility is a continuation of the status quo. Ontario and the other provinces would be saddled with the escalating costs from the social policy areas. But there would be one major difference for most provinces and that would be equalization.



The federal government could enrich the equalization formula as it did in the 1973 budget and thus stave off criticism. While this may not be a pleasant scenario for Ontario, it should not be dismissed. It is an alternative which Ontario may conceivably face unless either the federal government modifies its current attitudes or the government of Ontario broadens its entente to include the less affluent provinces.

The 5-5 split at the May Federal-Provincial Conference illustrates dramatically the weakness of Ontario's entente with Quebec. That is, it simply is not broad enough and takes no account of the historical concerns of the other regions especially the Maritimes and to a lesser degree the West. It is not that the other provinces love the federal government more, but they love Ontario less.

While Ontario for a long time has regarded herself as the "benevolent milch cow" of Confederation, that is not the perception of the other provinces. In many parts of Canada Ontario is disliked and reasons for this historical dislike are not hard to find. In 1966 the economic and fiscal subcommittee report of the Ontario Advisory Committee on Confederation stated:

"The subcommittee nevertheless recommends, *in the knowledge that Ontario is effectively paymaster for such transfers*, that the Ontario government attempt to restrain the total amount of equalization payments."

This type of comment annoyed other provincial governments as much as Premier Robarts' strong stand in favour of equalization payments won Ontario friends.

And when the provincial treasurer in 1971 stated, that "the government of Ontario was convinced that national policies detrimental to Ontario were also detrimental to the national interest", it sounded too much like the inverse of "what's good for General Motors is good for America."

On the taxation scene while Ontarians may not like their new sales tax, citizens in provinces like New Brunswick and Saskatchewan envy Ontarians their low personal income tax rates. In those two provinces the rates are 41.5% and 37% respectively.

Furthermore, in the Prairie and Maritime regions, while the

provincial governments may want to agree with the Ontario government on shared-cost programs they are naturally distrustful of a province which has benefited so obviously from the "National Policy". Charts in Ontario budget addresses which show how Ontario tax dollars (largesse) are redistributed to the rest of Canada do not impress other Canadians who feel they have paid for Ontario's prosperity through high costs associated with the protective tariff and freight rates.

If there is to be no revenue nor responsibility re-allocation in the near future, Ontario must consider what it should do. At the present time Ontario appears caught between the Scylla of federal confrontation and the Charybdis of provincial regional distrust.

Perhaps now is the time for the provinces to form an inter-provincial secretariat associated with the Premiers' Conference to bring a sense of focus and direction to the various functional areas. If such a secretariat was created, Ontario would be one party to it and would have to gain the support of provinces like New Brunswick and Saskatchewan as well as Quebec. It would be a useful exercise to go through and it would help broaden everyone's knowledge of and feel for Canada.

The only argument against such a secretariat is that it would formalize the confrontation with the federal authority. Such a step can be taken only with regret. The provincial premiers fought Medicare to no avail. Canadians have been bedevilled by high taxes, high inflation and high unemployment. Ontario has a challenge to see if it can show leadership to the other provinces which the other provinces will accept and trust.

In conclusion there are four possible scenarios for the future. The federal government can assume the responsibility and cost for one or more of the major shared-cost programs, e.g., post secondary education. However, this would require boldness and daring especially in convincing the Province of Quebec of its merits.

The second scenario is that the federal government can make available to the provinces greater revenue sources than are now available to them. For example, the federal government might consider the possibility of accepting certain provincial revenue sources, such as the general sales tax and of granting to the



provinces in return greater access to the more elastic personal income tax. Such a proposal would require a conviction on the part of the federal authority that greater decentralization was desirable.

The third scenario would be a continuation of the status quo. This will inevitably lead to increasing levels of taxation in the Province of Ontario or a cut back in expenditure programs, or a combination of both.

The fourth scenario would be the formalization of a coalition of provincial governments through the creation of an inter-provincial bureaucracy. The prime task of such an organization would be to actively search out areas of disagreement with the federal authority where the provinces are agreed on a common position. This could then lead to a united front against the federal government. It might not result in gains for the provinces but it should mean no more medicares.

There is a fifth senario which has not been discussed at all. If the fourth scenario is not the best but merely the only attainable choice, there may well be such frustration within the system that Confederation might break up. Steps must be taken to ensure that that eventuality does not occur.

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